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DAMNING WITH FAINT PRAISE

A remarkably blunt report on the Iran-Contra affair questions Ronald Reagan's competence and forces his once powerful chief of staff from the White House. But even with the highly regarded Howard Baker on board, it may be difficult for Reagan to repair his severely damaged Presidency

■ Just after 9 a.m. on February 26, as the rest of official Washington waited for the release of the long anticipated Tower Commission report, an aide rushed into a second-floor suite in the Old Executive Office Building and, like a halfback under hot pursuit, handed off a copy to Peter Wallison, the White House counsel. As the aide darted off, Wallison plumped down to read the report, which in its size and heft resembles nothing so much as a telephone directory for a medium-sized American city. In the next few minutes, senior staffers throughout the building were diving into their own copies of the report, and by 10 a.m. reporters and officials had begun gobbling up nearly 4,500 other copies from the White House press office. For the rest of the day, it seemed, the most common sound in the nation's capital was the susurrus of turning pages, punctuated by periodic cries of shock and disbelief.

By any standard, the contents of the blue-covered Report of the President's Special Review Board are riveting. In 304 dense but well-organized pages, the board—comprised of former Senator John Tower (R-Tex.), former Secretary of State Edmund Muskie and Lt. Gen. Brent Scowcroft, Gerald Ford's national-security adviser—provides the most comprehensive record to date of the bizarre origins of the Iran-Contra mess that has all but crippled the administration of Ronald Reagan. Until a few months ago, Reagan had been the wonder of American politics, an apparent master of popular communication who had burnished the image of the Presidency and impressed his own distinctive stamp on the American political tableau. It was a performance in office that, had the play continued, could even have landed Reagan in the Harry Truman rank of "near great" Presidents.

But now, with the damaging revelations of the Tower Commission report, chances are that history will take a less exalted view of Ronald Reagan. While it comes to no conclusions about the possibility of criminal wrongdoing, the Tower report documents a pattern of obsessive deception by White House aides who ran a mind-boggling series of shady operations that may have been in violation of several laws. More important for the President, the report provides the most definitive evidence yet of his disengaged and remarkably incurious style of management—inferentially raising the question of Reagan's competence to do his job without extraordinary support. Reagan "clearly didn't understand the nature of this operation, who was involved and what was happening," said Tower, who chaired the review board. When the board asked Reagan if he gave advance approval for an Israeli shipment of arms to Iran in August, 1985, the President said simply: "I don't remember—period." Tower, Muskie and Scowcroft weighed the other available evidence and came to a different conclusion: "On balance, the board believes that it is plausible to conclude that he did approve [the weapons shipments] in advance." Clearly shaken, Reagan made a brief statement thanking the board and its staff. Then he retired to a White House office to read the report and find out what it was he didn't know.

As exhaustive as the report is—and the Tower Commission surprised nearly everyone with the scope and aggressiveness of its inquiry—it still leaves many key questions unanswered. Tens of millions of dollars that changed hands in the arms sales to Iran and diversion of profits to the Nicaraguan Contras are unaccounted for. The special prosecutor appointed to sort out the details of the arms and money transfers is focusing narrowly on the mysterious money trail, as are investigators for the special House and Senate committees examining the transactions. The two panels are seeking Swiss bank records of some players in the affair, and independent counsel Lawrence Walsh has already granted immunity from prosecution to Lt. Col. Oliver North's former secretary, Fawn Hall. North and former National Security Adviser John Poindexter are refusing to testify, delaying the inquiries.

Baker bumps Regan

In the meantime, Ronald Reagan has other things to worry about. With the resignation at the weekend of his embattled chief of staff, Donald Regan, the President faces what may be the most important speech of his Presidency when he addresses the nation this week to explain and perhaps apologize for the benighted arms deals with Iran and the breakdown in the White House staff command that allowed the diversion of money to the Contras. In an attempt to regain lost momentum, Reagan has replaced Regan with former Senate Majority Leader Howard Baker (see page 23) and is expected to announce a further White House shakeup. In some respects, Baker is an inspired choice: His courtly manner and connections to Capitol Hill should improve White House relations with Congress. He is also immensely popular with the press and is a longstanding friend of an important constituent—First Lady Nancy Reagan.

Even with the reorganization, a new White House team and an aggressive public-relations plan to strengthen the President's battered leadership profile, many friends and foes believe that Reagan's moment has passed—that after the damage done by the Tower report, the consequences now preclude any significant comeback. "The agenda will not be determined by what the President wants to do," says House Ways and Means Committee Chairman Dan Rostenkowski (D-Ill.), "but by what Jim Wright and Robert Byrd want to do."

The Democratic leaders of the House and Senate are already pushing their own programs, with a keen eye on 1988. Perhaps more than anything else, the Iran-Contra scandal and the troubling questions raised about Reagan's detached management style will focus the long and windy presidential contests on the issue of competence for the office. Already, candidates are staking their claims on the competence issue, claiming they have the breadth of vision *and* the authoritative grasp of detail necessary to be a successful President.

On a nuts-and-bolts level, the effect of the scandal has been to recast the political landscape in favor of the Democrats. Vice President George Bush remains under a lowering cloud, though he has not been directly implicated in the Iran-

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Contra mess, and Baker's new residency in the White House West Wing removes one potential challenger. As Bush slips from the lead position, Senate Minority Leader Bob Dole (R-Kans.) is making unexpected early gains. If the revelations from the scandal continue to make front-page news, however, they will hurt any candidate carrying the Republican mantle. And if there is another bombshell like the Tower report out there somewhere, the Democrats, for all their studied caution in exploiting the current mess in Washington, may finally be unable to keep from gloating. "The Democrats," says Representative Henry Hyde (R-Ill.), "are like a funeral-home director at a $25,000 funeral, trying to look somber and not altogether succeeding."

In the short history of the Iran-Contra affair, there have been leaks, official disclosures and high-minded denials of wrongdoing. What there has been most of, however, since the broad dimensions of the scandal were revealed by Atty. Gen. Edwin Meese in November, is confusion. The Tower report, based largely on a trove of secret computer records found near the end of its inquiry, does much to resolve the confusion over the origins of the Iranian arms deals. Although it is less helpful on the details of the cash diversions to the Contras and a possible cover-up in recent months, it does provide much startling new information about the secret funding and support provided by White House aides to the Contras in their fits-and-starts war against the Sandinista government (see page 30).

For all the complexity of detail it provides on the affair, the Tower Commission report is likely to be remembered as one of the most popular documents ever printed by the U.S. government. After the 25,000 original government-ordered copies started selling rapidly, there was still such great demand for copies that Bantam Books in New York made plans for an initial press run of 300,000 copies, to be sold at $5.50 apiece. The clamor isn't hard to understand—the American love of a good spy thriller is well met in the account of the bizarre escapades of Ollie North.

Barroom bargain

In point of fact, North is only one of a strange cast of characters. As best anyone can tell, the U.S. overture to the Iranians was first broached, even before North entered the picture, by a colorful if somewhat dubious Iranian businessman named Manucher Ghorbanifar. Since the spring of 1982, the National Security Council staff had been recommending that the Reagan administration re-evaluate its posture toward Iran, with a view toward establishing some kind of relationship with a post-Khomeini regime. No satisfactory means were found for an opening to Teheran, however, and it was not until November, 1984, in a bar in Hamburg, Germany, that the outlines of a solution began to emerge. It was, as they say in the spy game, an unlikely gambit.

Theodore Shackley, a 28-year veteran of the Central Intelligence Agency, had traveled from London to Hamburg with an old friend, a former general under the Shah of Iran, who was deposed in 1979, the same year Shackley retired. In the bar, the ex-general introduced Shackley, then in business for himself, to Ghorbanifar, who expressed interest in buying American-made prostheses for Iranian soldiers wounded in the war with Iraq. When the conversation shifted to the war in Lebanon, Shackley asked Ghorbanifar if he knew anything about the U.S. hostages there, particularly William Buckley, an old friend who had been the CIA station chief in Beirut until he was kidnapped a few months earlier. As a matter of fact, Ghorbanifar said, he happened to know that all the U.S. hostages were well. And when Shackley asked if Ghorbanifar could provide further details "as a humanitarian gesture," Ghorbanifar quipped that, if Shackley was genuinely concerned, the two men could discuss a tractors-for-hostages deal. Nothing came of the discussions then, but it was the start of Ghorbanifar's long involvement in the secret U.S. weapons transactions that would end up with one White House official calling him "a devious person" and another describing him as "a crook."

That wouldn't happen until later, however. For a while, the Ghorbanifar contact was forgotten, as NSC staffers Donald Fortier and Howard Teicher suggested in June, 1985, that the U.S. should permit or encourage the transfer of Western arms to Iran. Secretary of State George Shultz and Defense Secretary Caspar Weinberger sharply objected, and the NSC staffers were ordered to "stand down" on the arms proposal. What the cabinet officials didn't know was that the Israelis were quietly offering their own arms-to-Iran proposals to the administration.

"Israel had longstanding interests in a relationship with Iran and in promoting its [own] arms-export industry," the Tower board notes circumspectly in its report. The Israeli interests, however, did not always coincide with those of the United States. And the Israeli proposals were further complicated by the identities of those pushing the arms shipments. Two, Al Schwimmer and Yaacov Nimrodi, happened to be in the arms business, and so stood to turn a handsome profit. The third was none other than Ghorbanifar. The three men wanted the U.S.—whose antiterror policy forbade arms shipments to Iran—to approve an Israeli sale. Not only that, the men said, they wanted the U.S. to agree to sell them more arms to replace those delivered by the Israelis. "... This is roughly like inviting [Libyan Col. Muammar] Qadhafi over for a cozy lunch," Defense Secretary Weinberger fumed at the time.

The President proceeds

Despite the suspect source of the proposals and the objections by Shultz and Weinberger, the President, more and more preoccupied with the fate of the American hostages, apparently gave the O.K. for "exploratory contact." According to the testimony of Chief of Staff Regan before the Tower Commission, the President, recuperating from his cancer operation on July 13, 1985, said, "Yes, go ahead. Open it up." A little more than a month later, the Tower Commission concluded, Ronald Reagan authorized the first Israeli arms shipment to the Iranians. A second shipment took place on Sept. 14, 1985, and the following day, hostage Benjamin Weir was released. The administration's antiterror policy, a key plank in the Reagan platform in 1980, was now officially broken. And now Oliver North would assume direct control of the secret dealings for the hostages.

Over the next six months, North, relying on Ghorbanifar, retired Air Force Maj. Gen. Richard Secord, CIA field agents and others, tried and failed to secure the release of more hostages. On Nov. 30, 1985, North's boss, National Security Adviser Robert McFarlane, resigned. McFarlane was replaced by his deputy, Vice Adm. John Poindexter. And North, perhaps sensing a kindred spirit in his new boss, asked to up the ante in the arms-for-hostages sweepstakes. The Israelis, with U.S. support, would sell Iran 3,330 TOW and 50 Hawk missiles in exchange for release of all the hostages, North suggested. Poindexter agreed, but the proposal was shot down by Shultz and Weinberger in a December 7 meeting with the President. Nevertheless, Reagan was still dissatisfied. "The President noted that it would be another Christmas with hostages still in Beirut, and that he was looking powerless and inept because he was unable to do anything to get the hostages out," the Tower Commission reported, based on Regan's testimony.

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Aware of the President's feelings, North continued meeting with Secord, Ghorbanifar and an Israeli named Amiran Nir. The CIA's deputy director, John McMahon, was incensed over North's use of agency personnel to expedite a previous Israeli arms shipment to Iran. In early January, 1986, the President finally overcame whatever misgivings he had and agreed to try the Israeli connection again. To satisfy McMahon, on January 17 he signed a directive, called a "finding," and for the first time, the U.S. became a direct supplier of arms to the Ayatollah Khomeini. In his diary, Ronald Reagan wrote, "I agreed to sell TOW's to Iran."

It was a momentous decision. And with typical flourish, North named the new weapons-to-Iran program "Operation Recovery." Despite North's energy and enthusiasm, however, and the shipment of 1,000 TOW's in February, the operation recovered nothing. Even after Ghorbanifar failed a CIA-administered polygraph test (according to one source, "the only thing he got right was his name"), North and the CIA continued to rely on him. Finally, in desperation, former National Security Adviser McFarlane was brought back in May, 1986, to make a special trip to Teheran, and a month later Father Lawrence Jenco, another hostage, was released, but the rest remained captive—contrary to U.S. expectations from the deal. McFarlane recommended canceling the arms-for-hostages negotiations, calling Ghorbanifar "a self-serving mischief-maker."

Instead of scrapping the deals, however, North found another channel. But evidence of the desperation of his efforts was beginning to become apparent (see page 19). In a meeting with Iranians in Frankfurt in October, 1986, according to the Tower panel's report, North told a fanciful tale about Reagan's praying "one whole weekend" over whether to recognize the Islamic revolution and said: "We also recognize [Iraqi President] Saddam Hussein must go." Reagan told the Tower Commission the stories were "absolute fiction."

Money machine

It is significant that the diversion of funds to the Contras also seems to have picked up at this time. Back in April, 1986, North had written that "the picture is dismal unless a new source of 'bridge' financing [for the Contras] can be identified." All along, the Iranians had been paying far more than the market value of the weapons. By the fall of 1986, the excess profits had reached nearly $20 million, and the money may have seemed to North to be a lifeline to the struggling Contras. A former CIA agent named George Cave noted that Ghorbanifar had proposed that "we use profits from these arms deals to fund support to the rebels in Afghanistan. We could do the same with Nicaragua." When North learned the Iranians would pay prices that would continue producing the fat profits, Ghorbanifar said, according to the Tower Commission report, "he was like a changed man."

Unfortunately, because the panel and its staff had no access to the Swiss accounts through which the money was transferred, they have no clues as to where it is. The evidence unearthed by the commission on the secret Contra-resupply effort by North and others will no doubt provide plenty of leads for investigators still trying to unravel the mess, but the money will be difficult to follow and may already have disappeared. "There are too many players," says former CIA Agent Shackley, "for the money to [still] be in a Swiss bank account."

As intriguing as the money trail is, and as compelling as the saga of Ollie North may yet become, the real drama centers on Ronald Reagan and what, if anything, he can do with the remaining two years of his Presidency. His prime-time speech this week presents what may be his last opportunity to convince the American people he is in charge of his floundering administration. If he follows the advice of congressional confidants and old friends from California, he will accept full responsibility, do a clean sweep through the upper levels of the White House staff and then tell the country what he has done. Strangely, the old Reagan magic, even despite all his problems, has not deserted him entirely. A *Los Angeles Times* poll last week showed that while more than half the people surveyed believe Reagan has lost control of his administration, more people (55 percent) approve of his performance now than in the previous poll. The warm feeling most Americans still hold for Reagan, however, is unlikely to translate into real power in Washington, where a restive Congress controlled by Democrats has already grabbed control of the agenda and signaled its intent to move on without the President. True, there are still some tricks the Gipper has up his sleeve—the power of the veto, for instance. And it is still possible he could retrieve an arms-control agreement with the Soviets. That's one hope. His only other on the domestic front is probably a policy of conciliation with the Congress, since Reagan is no longer 100 percent veto-proof. "He needs to take control of his government," says Robert Strauss, a veteran Democratic strategist. "He needs a limited, attainable, credible agenda . . . so he can say this administration is not dead."

That may be, but the vital signs of the administration are not strong, the rescue attempt this week may be too little, too late, and the momentum may already have passed to the Democrats, with a field of youthful and energetic candidates, each of whom seems determined to prove he is more competent than the others to run the country. Where Ronald Reagan counted on communications skills and careful packaging by his staff, the class of '88 will have to show it is different. Where Donald Regan fell from power because he failed to understand the dangers of "letting Reagan be Reagan," the next President will have to show he doesn't need an all-powerful chief of staff to keep him from making big mistakes. If there is any silver lining at all in the current scandal, it may be the lessons it leaves for the next holder of the Oval Office. ■

by Brian Duffy with Dennis Mullin, Kenneth T. Walsh, Gloria Borger, Andy Plattner, Charles Fenyvesi, Melissa Healy and Gillian Sandford

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IN TOO DEEP

Soldier of misfortune

When Ronald Reagan reluctantly fired Lt. Col. Oliver North from the National Security Council staff on November 25, he referred to the handsome Marine as "a national hero." But it now appears that, as with so much else in this strange Iran-Contra affair, the President knew very little about North or what he was doing in the name of his government. The Tower-report revelations will no doubt be of great interest to the continuing criminal inquiries, but they're likely to be equally fascinating to an army of armchair psychologists.

• In October, 1986, North traveled to Frankfurt, Germany, to meet with some Iranians. He delivered a Bible inscribed by the President and, according to the Tower Commission report, made the declaration: "We inside our government had an enormous debate, a very angry debate inside our government over whether or not my President should authorize me to say, 'We accept the Islamic revolution of Iran as a fact. . . .' [The President] went off one whole weekend and prayed about what the answer should be, and he came back almost a year ago with that passage . . . that he wrote in front of the Bible I gave you. And he said to me, 'This is a promise that God gave to Abraham. Who am I to say that we should not do this?' " It's a dramatic story, but untrue, according to the President, who told the Tower panel it was "absolute fiction."

• In February, 1985, North learned of the existence of a Nicaraguan merchant ship, the *Monimbo,* en route from North Korea to Managua. It was suspected of carrying weapons. He recommended that the U.S. give the Contras information on the *Monimbo* and that they be "approached on the matter of seizing and sinking the ship." Of course, North said, the Contras would need help from a special-operations force from a "friendly country." When no such country could be found, North reluctantly dropped the idea.

• Between January and March of 1986, despite a congressional prohibition on U.S. military aid to the Contras, North, from his office in the White House, arranged for private parties and an officer of the Central Intelligence Agency to coordinate at least nine secret deliveries of military equipment. In the jargon of the military, these are known as "lethal drops," and the Tower panel says they were paid for by Contra "benefactors" lined up by North. "This was all lethal," a CIA officer said. "Benefactors only sent lethal stuff."

In the eye of the storm

• In June, 1986, North was under increasing pressure, as a result of the stalled hostage talks and questions about his work on behalf of the Contras. Former National Security Adviser Robert McFarlane was worried. "I don't know what you do about it," McFarlane wrote to North's boss, the new national-security adviser, John Poindexter. "But in Ollie's interest, I would get him transferred or sent to Bethesda [Naval Hospital before] the disability review board. (Apparently, the Marine Corps has already tried to survey him once.) That would represent a major loss to the staff and the Contra effort. . . . But in the end it may be better anyway."

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THE CLOAK AND DAGGER TALES

Ollie North's private network

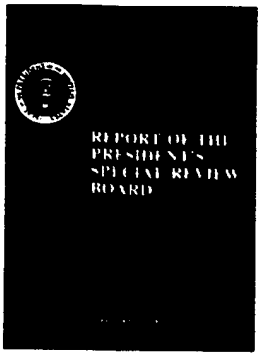
In the end, the most explosive section of the 299-page Tower Commission report may lie in a 17-page appendix titled simply, "The NSC Staff and the Contras." There, in matter-of-fact prose, the commission describes one of the most astonishing cloak-and-dagger stories in recent U.S. diplomatic history. It reveals a wide-ranging, intricate and possibly illegal operation fashioned primarily by Lt. Col. Oliver North to supervise and fund the rebels despite strict congressional bans on such governmental aid. And it details the brazen lengths to which the scheme's organizers went to shield the operation from congressional scrutiny.

Direct U.S. aid to the Contras was barred by Congress in 1984 and 1985. Yet during that time, North managed to funnel millions of dollars to the Contras through "gifts" from friendly foreign governments such as Saudi Arabia and through funds raised from private citizens by specially created "foundations." The report discloses how North channeled weapons to Contra forces in Honduras and even pinpointed their military strikes against Managua. It describes how a secret airstrip was built in Costa Rica under direction from the NSC's offices in the White House. North dubbed the secret program "Project Democracy," and at one time its assets—including ships, warehouses and aircraft—exceeded $4.5 million.

Documents found in North's safe detail a private Contra-support network with ties to 28 organizations and companies. North also set up his own communications system. Using 15 encryption devices supplied by the National Security Agency, he sent classified messages to the Contras, the Central Intelligence Agency and private operatives in the field. This enabled him to direct munitions drops and keep up-to-the-minute records of Contra financial needs.

A threatening phone call

North became so enamored of his authority that, at one point, he telephoned Costa Rican President Oscar Arias and threatened to cut off $80 million in U.S. assistance unless Arias canceled a planned press conference to disclose the secret airfield. Afterward, North confessed to his boss, National Security Adviser John Poindexter: "I recognize I was well beyond my charter in dealing with a head of state this way." Poindexter responded: "You did the right thing, but let's try to keep it quiet."



As North's activities grew, Poindexter warned him, "You are letting your operational role become too public." The national-security adviser directed North to talk to no one, including CIA Director William Casey, and to create a "cover story that I have insisted that you stop."

However, some in Congress became increasingly suspicious of North's activities. In responses to lawmakers' queries in late 1985, Robert McFarlane, then national-security adviser, flatly denied that the NSC staff played any role in the Contra fund-raising activities. In August, 1986, North himself told members of the House Intelligence Committee that he gave no military advice to the Contras. When he returned to his office, he found a message from Poindexter: "Well done."

As revealing as the appendix is, it still leaves many unanswered questions. Most critical: How much money was raised through the diversion of profits from arms sales to Iran, and what happened to the money? According to the report, $19.8 million from the arms sales is "unaccounted for and available for diversion." Yet the commission was unable to determine how much money was diverted to the rebels, or if North ever sought or received prior approval to shift funds to the Contras.

The other questions remaining: What happened to the money raised for the Contras through North's private network? To what extent did officials of the CIA and other agencies collaborate on North's "off the books" operation? What was North's involvment with pro-Contra political-action committees? The commission offers few clues, so it is now up to Congress and the special prosecutor to finish untangling the web spun by North. Says one investigator, "It's amazing what one man could do."

by Steven Emerson and Robert A. Manning

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